PENNSYLVANIA SOCIETY OF TAX & ACCOUNTING PROFESSIONALS
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Week of April 24, 2017

HEADLINES

HR 291 INTRODUCTION

House Resolution 291 sponsored by Representative Peifer was formally introduced in the House on Wednesday. This resolution directs the Department of Community and Economic Development, in consultation with the Department of Revenue and the Independent Fiscal Office, to commence a study to investigate the feasibility and potential cost savings associated with the replacement of local earned income tax collection methods by local taxing committees with a statewide collection method domiciled in the Department of Revenue.

GOV. WOLF SIGNS SHORT-TERM UC FUNDING FIX

Gov. Tom Wolf announced Monday evening he has signed Senate Bill 250, now Act 1 of 2017, legislation that will provide $15 million of funding to the state's Service and Infrastructure Improvement Fund that is used to fund IT improvements and additional staff at the Commonwealth's unemployment compensation call centers. "I am grateful to Senators Ward and Tartaglione, Reps. Kaufman and Galloway, and all those in the General Assembly who helped get these temporary but necessary resources through both the House and Senate," Gov. Wolf said in a statement on the signing of the legislation. The funding is expected to bring back 200 of the nearly 500 laid-off UC call center employees, who will be brought back to work in accordance with rules agreed to in the collective bargaining agreement with the union representing the call center workers. Additionally, the administration hopes to have the Altoona call center—one of three call centers across the commonwealth closed by the lack of funding—to open in May.

GOV. WOLF, TORSELLA REPEAT CALL FOR STATE PENSION BOARDS TO REDUCE FEES, MOVE TO MORE PASSIVE INVESTMENT STRATEGY

Gov. Tom Wolf and Treasurer Joe Torsella Monday doubled-down on their call for the State Employees' Retirement System and the Public School Employees' Retirement System to reduce their management fees, move to a more passive investment model, and increase savings opportunities. Ultimately, the two boards were asked to reduce the amount of fees paid to private investment firms over the next three years by 20 basis points. Gov. Wolf said while the move does not take the place of meaningful pension reform—something he said he is still committed to and defined as reducing the unfunded liability, something that reduces the expenses annually on schools and the state, and that is fair to employees—encouraging the boards to make these reforms is something that can be done immediately.

AUDITOR GENERAL RELEASES PERFORMANCE AUDIT OF UC SYSTEM

Auditor General Eugene DePasquale Tuesday released a long-awaited audit of the Pennsylvania Department of Labor and Industry's unemployment compensation system call centers and funding that was supposed to be used for technology upgrades and system infrastructure improvements. Calling the findings of the audit "stunning," the auditor general noted that people have "a right to be frustrated" over how $178.4 million of Service Infrastructure Improvement Fund (SIIF) money was used over the four-year period covered by the audit. According to DePasquale, the audit was impeded by the lack of proper accounting standards used within the department to account for how much of the money was spent on which projects and whether the money appropriated for system technology upgrades was ever used for its intended purposes. In addition, DePasquale's audit found that if a long-term solution is not agreed to in the next several months, the department will be forced to close three additional call centers, resulting in the total lack of telephone assistance for those seeking to file unemployment compensation claims. In total, the department will require an estimated $159.5 million over the next four years in order to maintain operation of the current level of call centers and employees—meaning not bringing back the three call centers and nearly 500 employees laid off due to the current lack of funding—while also providing for the needed computer and other IT upgrades needed for the system.

SENATE COMMITTEE APPROVES CHANGE IN TAXATION OF VAPOR PRODUCTS

The Senate Finance Committee approved a bill Wednesday that would change the way Pennsylvania taxes e-cigarette products to help prevent more vapor shops from going out of business, according to the bill's sponsor, Senator Camera Bartolotta (R-46). Bartolotta's bill would eliminate the 40 percent wholesale tax and replace it with a 5-cents per milliliter retail tax on e-liquid. This approach to taxation is consistent with levies imposed in other states and would help generate predictable revenues for the state without threatening the viability of existing vapor shops, Bartolotta said.

SMALL BUSINESS TAX FAIRNESS PACKAGE PASSES FINANCE COMMITTEE

On Tuesday, the House Finance Committee approved the Small Business Tax Fairness Package, which includes three House bills being sponsored by Reps. Stephen Bloom (R-Cumberland), Seth Grove (R-York) and Eric Nelson (R-Westmoreland). Each of the bills passed with a 16-7 vote. As 65 percent of Pennsylvania's jobs are created by small businesses, the bill sponsors agree that the success of small businesses is key to improving the state's economy. Further, by advocating this tax reform package, they are hoping to improve small business success by removing unnecessary impediments. The package includes HB 331, HB 332, and HB 333 which each make changes to the Tax Reform Code. All three bills have been sent to the full House for further consideration. Identical legislation is being introduced in the Senate by Sens. Mike Folmer, John Eichelberger and Scott Hutchinson.

PROPERTY TAX LIMITS ON REASSESSMENT

Representative Jack Rader introduced co-sponsorship memorandum for legislation which would limit the tax increase a local taxing jurisdiction is permitted to impose on single properties during a county-wide easement. Currently, Pennsylvania law requires that millage rates are adjusted in a reassessment year. The taxing jurisdictions (i.e. county, municipality and school districts) cannot levy more taxes as a result of the reassessment, than it did the previous tax year, as a first step in the process. As a second step, a taxing district may then, by a separate vote, choose to adjust their millage rate if they desire to levy additional taxes. The law caps the additional revenue at 10% the total amount levied the preceding tax year. This statutory limit is different for school districts, which are limited the Act 1 Index, as provided by the State Department of Education. In recent years, the Act 1 Index has generally been between 2-3%. There is no cap as to the percentage change of an individual tax amount. This legislation would secure the tax rate increase for individual taxpayers at not more than 10% greater than the total amount levied on the taxpayer in the preceding year.

ABLE PROGRAM TAX DEDUCTION

Representative Jim Marshall introduced co-sponsorship memorandum for legislation to establish a tax deduction for Pennsylvanian families participating in the state's "Achieving a Better Life Experience" (ABLE) savings program. The ABLE program encourages families to set aside funds for costs related to the disability of a family member, giving families saving for disability expenses a state income tax benefit that is similar to the benefits provided by through our 529 college savings accounts. Specifically, this proposal provides a tax deduction for contributions made to a PA ABLE account up to the maximum of the annual federal gift tax exclusion (currently $14,000) per beneficiary. Additionally, it provides that any distributions from or changes to a PA ABLE account that are not subject to federal income tax will not be subject to Pennsylvania state income tax.

PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:

2017 SENATE SESSION SCHEDULE

May 8, 9, 10, 22, 23, 24

June 5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

2017 HOUSE SESSION SCHEDULE

May 8, 9, 10, 22, 23, 24

June 5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

DEPARTMENT OF REVENUE UPDATE

Pennsylvania Tax Amnesty Program Underway Until June 19

The Pennsylvania Department of Revenue announced the launch of a Tax Amnesty program. Eligible individuals and businesses can apply now through June 19, 2017 to pay past-due state taxes and have all penalties and half of the interest waived. Act 84 of 2016 authorized a tax amnesty to net an estimated $100 million for the current year fiscal budget. Pioneer Credit Recovery is assisting the Department of Revenue with the administration of the program under requirements established by state law and the department. Most individuals and businesses are eligible if they have unfiled tax returns, or unpaid or underpaid taxes due by the end of 2015. More than 30 state taxes administered by the department are eligible with some restrictions.

Those who owe back tax are encouraged to visit www.backtax.pa.gov or call 1-844-PA-STATE-TAX (1-844-727-8283) to apply for tax amnesty and make the required payment by June 19. The Department of Revenue is mailing letters to approximately 800,000 known delinquent taxpayers with information about how to participate. As an incentive to those who have been flying under the radar, individuals and businesses with tax liabilities unknown to the department only have to file and pay taxes dating back to Jan. 1, 2011. All tax amnesty payments must be made in full by June 19. Payments will be accepted by check, money order, credit/debit card or electronic funds transfer.

Adding to the urgency of the program, eligible individuals and businesses that fail to take advantage of the Tax Amnesty program will receive a 5 percent penalty on their unpaid amnesty eligible delinquencies after the program. Delinquent taxpayers from all Pennsylvania counties and every U.S. state owe $3.47 billion in Pennsylvania taxes that may be eligible for the Tax Amnesty program. Of that total, $1.1 billion is delinquent from 2005 and earlier, $889 million is under appeal, and $2.2 billion represents delinquent tax and with rest interest, penalties, and fees. Approximately 21 percent of delinquent taxpayers are from out of state, including 68,700 taxpayers in Delaware, New York, New Jersey, Maryland and West Virginia. Businesses owe 65 percent of the back taxes in corporation taxes, employer withholding taxes and sales tax. Delinquent sales tax accounts for 26 percent of the total. Individuals and businesses that participated in the 2010 Tax Amnesty are ineligible for this program.

With the successful launch of the program, Revenue Secretary Eileen McNulty is retiring. Governor Tom Wolf has named Hassell as acting secretary of revenue effective at the close of business.

IRRC UPDATES

None